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Industry Commitment to Resolving Short Term Gas Transmission Constraint Issues

Key members of the gas industry have put in place a package of measures to address short term issues arising from capacity constraints on Vector's North Pipeline. Gas Industry Co has today released an assessment of the industry package, *"Update on the Retail Competition and Transmission Capacity Workstream"*. The assessment concludes that the industry-agreed package should provide large end users on the North Pipeline greater supplier choice, and consequently this new initiative has removed the immediate need for rules to be imposed.

The package commits most North Pipeline shippers holding "grandfathered" gas transmission capacity entitlements to offer capacity to competitor retailers, where large end users wish to change supplier.

Gas Industry Co, the industry body under the Gas Act, had proposed rules to meet the concerns of some large end users that the capacity constraints were limiting their ability to get competitive bids when tendering for gas supply. Following consultation with industry participants, Gas Industry Co agreed to providing the industry an opportunity to develop non-regulated alternatives to the rules.

"We are pleased that key industry participants have developed a substantive response to concerns about the effects of the constraint, and in a way that will come into effect immediately," said Gas Industry Co Chief Executive Steve Bielby.

He said the capacity issues have resulted from increased demand on the North Pipeline and historical contractual arrangements for transmission capacity designed at a time when capacity was abundant.

"It is preferable for a solution to be found through industry measures rather than rules," he said. "The industry package can provide a bridge to the development of longer term solutions. It is consistent with broader reforms that the wider industry agrees should be pursued by us over the next two years to ensure there are robust arrangements for access to, and efficient use of, existing transmission capacity, as well as incentives for future investment."

Under the industry package, shippers have also committed to disclose for the first time details of capacity offers in tender processes, which will provide a new price signal that the market can respond to, and ensures the effectiveness of the commitments can be fully assessed. Gas Industry Co will monitor the arrangements very closely over coming months.

Mr Bielby said a commitment by the industry to develop a new bulletin board later this year for transmission capacity trades should further improve transparency around capacity trades.

“While the bulletin board will be a basic information facility initially, it can be seen as a platform for developing more sophisticated market arrangements in the longer term.”

Other commitments reflect recent changes in the market, particularly the fact that transmission capacity for gas-fired power stations in Auckland is not being utilised as extensively as before. That accounts for around half of firm capacity on the North Pipeline. Vector Transmission and the station owners have committed to negotiate arrangements for trading of spare transmission capacity for the first time.

Mr Bielby said New Zealand until recently had been fortunate to have sufficient transmission capacity for its needs. “International experience tells us that as markets change and grow infrastructure constraints do develop, and markets need to adjust, including to ensure there are good price signals and other information to support investment decisions. The industry package and our Gas Transmission Investment Programme are aimed at ensuring we have an efficient market for our existing scarce transmission capacity and the right signals for future investment.”

The industry package and Gas Industry Co’s assessment can be found at:

<http://gasindustry.co.nz/work-programme/short-term/bridge-commitments>

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